

Reading the Markets

Sweden

This week, Reading the Markets has our Chief Economist Roger Josefsson as guest writer – giving his views on the growth outlook for Sweden and for Q3 in particular.

Danske Bank Markets' market view in a nutshell

Relative value		Grade*	Last update
Delta	Small shorts (in the long end of the curve)	3	05/11-2015
Curve view	We like the 5Y point on the curve. Steepen the curve beyond 5y	2	05/11-2015
Cross country sprds	Receive SEK 1Y1Y vs. EUR. Neutral in spreads beyond 3y	3	19/11-2015
Short-end (<2Y)	The money market curve is too steep, receive 2y1y outright.	3	10/07-2015
Index-linked bonds	Steeper real rate curve	3	05/11-2015
Covered bonds	Buy covered bonds. In ASW or vs. 10y government bonds	3	05/11-2015
Swap Spreads	Neutral	1	05/11-2015
Repo rate			
	3m	6m	12m
	-0.45%	-0.45%	-0.45%

* Grade of conviction 1-3, where 3=strongest

Source: Danske Bank Markets

Macro/FI strategy

Michael Grahn
+468 568 805 88
michael.grahn@danskebank.se

Chief Economist

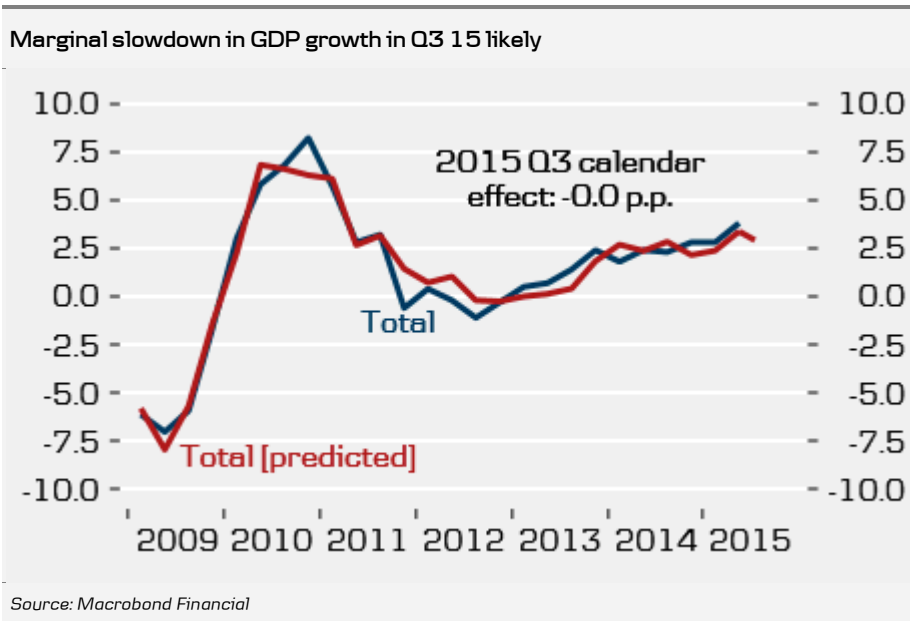
Roger Josefsson
+468 568 805 58
roger.josefsson@danskebank.se

GDP Q3 2015 is hard to predict

On Monday, Statistics Sweden (SCB) is set to publish its first estimate of GDP Q3 2015. The Riksbank expects a GDP growth of 3.4% y/y, a slight deceleration from Q2'15. Our estimate of 3.2% y/y (no cal adj. necessary in Q3), does not deviate markedly from the Riksbank's or other forecasts. However, a couple of the components of demand have been unusually difficult to pinpoint, leading to large symmetrical risks to our estimate.

One of the more reliable primary data sources is the number of hours worked. From the material that SCB provides we can conclude that hours worked should grow by 0.4% y/y, which is a deceleration from Q2 and that this rate would necessitate strong productivity growth in order to keep overall GDP growth intact. According to business sector production statistics, growth was indeed strong during Q2 but failed to accelerate, implying some downside risk to our estimate for Q3 GDP.

When studying primary data and indicators for demand side components, which SCB often prefers when balancing production and demand side calculations for GDP, estimating Q3 GDP becomes considerably more challenging. Publicly available primary statistics constitute only a fraction of the data necessary to calculate GDP, making calculations difficult even in 'normal' times. For Q3 15, however, even the available data raises a few question marks. In particular, data and indicators for net exports and public expenditure diverge.



Current account and trade balance data normally give strong indications of developments in external trade in GDP terms, but in Q2 a large discrepancy arose between net exports and its indicators, especially for imports. SCB attributes the weak imports growth to low levels of import of crude oil, but our own calculations suggest that slow consecutive growth in services imports was also an important factor. This could in turn be a reaction after the temporary and very strong growth in services imports in Q4 2014, but lacking other input we assume a normalisation of imports during the third quarter. In detail this means higher crude oil import volumes and relatively strong Swedish tourism abroad. – These assumptions are key to our Q3 2015 forecasts on imports, net exports and therefore GDP.

Another GDP component that we have found unusually difficult to compute over the past couple of quarters – and which will probably contribute to future difficulties as well – is public expenditure. Traditionally, it has sufficed to study the hours worked in the public sector to get a strong indication for how public consumption is developing. This relation has weakened recently as the composition of public expenditure has been varying considerably from one quarter to the next. To some extent, the surprisingly strong public consumption is the result of the influx of migrants to Sweden. These costs showed no sign of weakening during Q3 which is why continued high public consumption seems probable, above what public hours worked indicate. Make no mistake about it, this ‘guesstimate’ has considerable symmetrical risks attached to it – especially since we have no other indicators upon which to rely.

If we look further out to our full year GDP forecast for 2015 of 2.8% y/y (cal adj), our forecast is a notch or two below that of most other forecasters. Another outcome (i.e. Q3) above this forecast would imply a very weak outcome in Q4 2015, which we base on the temporarily very high growth rate seen in Q4 2014 – for investments and net exports in particular. This difference deserves to be highlighted as it explains our relatively low forecast for GDP growth in 2015.

That said, the discussion on the growth outlook becomes considerably more interesting when looking further ahead and contemplate the weak demand in emerging market economies and the ominous comments on the prospects for the Eurozone from the ECB. Add to that weak Norwegian demand and a slowing growth in the UK and the outlook becomes rather gloomy. The main upside risk to Swedish growth – again – stems from household consumption. If one expects modest wage growth and stable employment growth, then strong consumption would mean a lower household savings ratio. For the present, at least, this seems unlikely as the political focus on reining in household balance sheets is high and the public debate on the fragile housing market runs hot.

Strategies

Type	Trade	Idea	Target & P/L		Status
Fwd ASW spread	Buy SGB1058 vs. SGB1059 in a fwd ASW spread	SGB1059 trades cheap ahead of switch auctions, which could be a trigger for a repricing	Opened Start Target/Stop Now P/L	23 Nov 2015 -5.00 15/-35 -11.00 6.0	Hold
Country spread	Receive SEK 1y1y vs. EUR	SEK 1y1y vs. EUR at attractive level amid ECB repricing and prior selling of SGBs	Opened Start Target/Stop Now P/L	17 Nov 2015 6 -10/17 5.40 0.6	Hold
Real rate	Buy SGBi3110/ SGBi3109	Supply woes should hit linkers too. Go for steeper real rate curve	Opened Start Target/Stop Now P/L	05 Nov 2015 72 90/60 76 4.0	Hold
Curve spread	Pay 10y receive 5y in a swap steepener	We expect the shape of the yield curve to alter. The steepness of the curve to be pushed from 2y/5y to 5y/10y	Opened Start Target/Stop Now P/L	05 Nov 2015 0.95 1.15/0.8 0.9 -1.4	Hold
Covered bond	Buy SWH180 ASW	SEK Covered bonds trade too cheap. Buy	Opened Start Target/Stop Now P/L	04 Nov 2015 55.50 40/67 54.900 0.6	Hold
Fly	Buy SGB1047 vs. SGB1051/SGB1059 in a fly	The 5y segment has underperformed - time for a rebound	Opened Start Target/Stop Now P/L	27 Oct 2015 -0.17 -0.26/-0.08 -0.2 -0.3	Hold
Money Market	Receive 2Y1Y ahead of Riksbank	The mid segment in Sweden has underperformed and ASW spreads have rebounded	Opened Start Target/Stop Now P/L	01 Jul 2015 0.67 0.1/0.25 0.09 58.1	Hold

Source : Danske Bank Markets

Weekly Calendar

Monday, 30 November, 2015					Period	Danske Bank	Consensus	Previous
00:50	JPN	Industrial production, preliminary	m/m y/y	Oct			1.7% -1.0%	1.1% -0.8%
09:00	DEN	GDP, preliminary	q/q y/y	3rd quarter	0.0% ...			0.2% ...
09:30	SWE	GDP	q/q y/y	3rd quarter	+0.2% 3.2%			1.1% 3.3%
09:30	SWE	Wages (blue collars/white collars)	y/y	Sep				2.4%
10:00	NOR	Credit indicator (C2)	y/y	Oct				5.6%
11:00	ITA	HICP, preliminary	m/m y/y	Nov				0.5% 0.3%
12:00	EZ	Portugal, GDP, final	q/q y/y	3rd quarter				0.0% 1.4%
15:45	USA	Chicago PMI	Index	Nov		54.0		56.2
16:00	USA	Pending home sales	m/m y/y	Oct		1.5% ...		-2.3% 2.5%
Tuesday, 1 December, 2015					Period	Danske Bank	Consensus	Previous
00:00	USA	Total Vehicle Sales	m	Nov		18		18.12
02:35	JPN	Nikkei Manufacturing PMI, final	Index	Nov				52.8
08:30	SWE	PMI manufacturing	Index	Nov	53.5			53.5
09:00	NOR	PMI manufacturing	Index	Nov				48.3
09:45	ITA	PMI manufacturing	Index	Nov				54.1
09:50	FRA	PMI manufacturing, final	Index	Nov				50.8
10:00	EZ	PMI manufacturing, final	Index	Nov		52.8		52.8
10:30	UK	PMI manufacturing	Index	Nov	53.0	53.5		55.5
11:00	EZ	Unemployment	%	Oct		10.8%		10.8%
15:45	USA	Markit manufacturing PMI, final	Index	Nov		52.6		52.6
16:00	USA	Construction spending	m/m	Oct		0.5%		0.6%
16:00	USA	ISM manufacturing	Index	Nov	50.3	50.5		50.1
16:00	USA	ISM prices paid	Index	Nov		40.0		39.0
18:45	USA	Fed's Evans (voter, dovish) speaks						
Wednesday, 2 December, 2015					Period	Danske Bank	Consensus	Previous
02:00	USA	Fed's Brainard (voter, dovish) speaks						
09:30	SWE	Current account	SWE bn	3rd quarter				58.4
10:30	UK	PMI construction	Index	Nov		59.0		58.8
11:00	EZ	PPI	m/m y/y	Oct		-3.2% -0.4%		-3.1% -0.3%
11:00	EZ	CPI - core, preliminary	%	Nov		1.0%		1.1%
11:00	EZ	CPI, preliminary	y/y	Nov		0.2%		0.1%
13:00	USA	MBA Mortgage Applications	%					-3.2%
14:15	USA	ADP employment	1000	Nov		190		182
14:30	USA	Unit labour cost, final	q/q	3rd quarter		1.0%		1.4%
16:30	USA	DOE U.S. crude oil inventories	K					961
Thursday, 3 December, 2015					Period	Danske Bank	Consensus	Previous
02:35	JPN	Markit PMI services	Index	Nov				52.2
07:30	FRA	ILO unemployment	%	3rd quarter				10.3%
08:30	SWE	PMI services	Index	Nov	58			57.5
09:45	ITA	PMI services	Index	Nov				53.4
09:50	FRA	PMI services, final	Index	Nov				51.3
10:00	EZ	PMI composite, final	Index	Nov				54.4
10:00	EZ	PMI services, final	Index	Nov		54.6		54.6
10:30	UK	PMI services	Index	Nov	55.0	55.0		54.9
10:30	UK	PMI composite	Index	Nov				55.4
11:00	EZ	Retail sales	m/m y/y	Oct		0.2% ...		-0.1% 2.9%
13:45	EZ	ECB's Draghi speaks at press conference						
13:45	EZ	ECB announces refi rate	%			0.05%		0.05%
13:45	EZ	ECB announces deposit rate	%			-0.35%		-0.20%
14:30	USA	Initial jobless claims	1000					260
15:45	USA	Markit service PMI, final	Index	Nov				56.5
15:45	USA	Markit composite PMI, final	Index	Nov				56.1
16:00	USA	ISM non-manufacturing	Index	Nov	58.0	58.0		59.1
16:00	USA	Durable goods orders, final	m/m	Oct				3.0%
16:00	USA	Factory orders	m/m	Oct		1.0%		-1.0%
Friday, 4 December, 2015					Period	Danske Bank	Consensus	Previous
00:00	OPC	OPEC meeting, Vienna						
02:30	JPN	Labour cash earnings	y/y	Oct		0.5%		0.4%
06:00	JPN	Consumer confidence	Index	Nov				41.5
09:30	SWE	Industrial production s.a.	m/m y/y	Oct	n.a. 3.5%			2.0% 6.3%
09:30	SWE	Service production	m/m y/y	Oct				0.1% 1.4%
09:30	SWE	Industrial orders	m/m y/y	Oct				22.3% 32.8%
14:30	USA	Unemployment	%	Nov	5.0%	5.0%		5.0%
14:30	USA	Average hourly earnings, non-farm	m/m y/y	Nov	0.3% 2.3%	0.2% 2.3%		0.4% 2.5%
14:30	USA	Private payrolls	1000	Nov		190		268
14:30	USA	Manufacturing payrolls	1000	Nov		0		0
14:30	USA	Non-farm payrolls	1000	Nov	175	200		271
14:30	USA	Trade balance	USA bn	Oct		-40.7		-40.8

Source: Danske Bank

Disclosure

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Michael Grahn, Senior Analyst, and Roger Josefsson, Chief Economist.

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